

**CITY OF OAK HARBOR**  
**Island County, Washington**  
**January 1, 1993 Through December 31, 1993**

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**Schedule Of Findings**

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1. Record Of Water Meter Readings Should Be Retained

During our audit of utility billings, we learned that some of the original records of 1993 water meter readings were not retained.

Customers, for which an account had not been established, were billed based on hand written meter readings, and those were not retained through the first half of 1993. This was included in a finding in the prior audit report. It appears the appropriate documentation was retained after June 1993.

As authorized by RCW 40.14.050, records retention schedules for use by state and local government are established by the records committee, which is composed of representatives from the Offices of State Archivist, State Auditor, and State Attorney General. The records retention schedule for water and sewer utilities requires that "meter books" or whatever serves as evidence of the readings taken from individual meters, be kept for at least three years.

When source documents to support customer water meter readings are not retained, we cannot gain adequate assurance that all utility customers are being billed the proper amount.

We were able to gain adequate assurance through other means that the utility revenue and accounts receivable amounts on the financial statements are presented fairly in all material respects for 1993. However, failure to keep adequate source documentation could lead to future problems in financial reporting.

We recommend city officials retain all source documentation to support utility billings as required by state records retention schedules.

2. The City Should Keep An Accurate Register For All Bank Account Activity

During our audit of cash balances at December 31, 1993, we found that city officers did not keep an accurate check register for the city's operating bank accounts. As a result, city staff could not agree cash according to the general ledger and financial statements with reconciled bank statements for December 31, 1993.

The finance department prepared an account register during the current audit. The register we received on the last day of field work reflected cash of \$90,243 less than cash reported on the financial statements for December 31, 1993. Also, the information provided by this account register was not adequate to identify where the overstatement occurred in the city's general ledger and financial statements.

Incomplete and inaccurate registers were available for bank accounts used in 1993. At the beginning of 1993, at least four bank accounts were used to process city receipts, issuance of treasurer's checks, payroll checks, and checks to pay vendors. Activity for these accounts was recorded in separate registers; however, no register recorded an account balance, for reconciliation with the bank statements, and many of the entries in these registers were in error. These same problems continued through 1993, when the four operating accounts were merged into one "concentration" account at a different bank.

Without a reconciliation from cash on the city's books to the amount in the bank records, we could not gain adequate assurance that cash is presented fairly on the financial statements at December 31, 1993. This can have serious repercussions on budgeting, the accuracy of information provided to management, financial reports to the public, and daily financial management decisions.

We recommend that the finance staff keep an accurate register for each bank account. Each month end register balance should be reconciled with the bank statements. This account register should also be reconciled to the city's general ledger.

3. City Officials Should Improve Internal Accounting Controls Over Fixed Assets

Our review of the city's fixed assets revealed the following weaknesses in internal controls:

- a. The city does not maintain a detailed asset ledger for the general fixed asset account group.
- b. City officials do not take a physical inventory of the city's assets on a regular basis.

As a result of the absence of a fixed asset ledger for the general fixed asset account group, we were unable to apply audit procedures to verify the validity of these fixed asset balances. Consequently, we consider this condition to be a material weakness in internal control for financial reporting purposes.

We recommend that city officials:

- a. Establish and maintain a detailed fixed asset subsidiary ledger for the general fixed asset account group. All additions and retirements of fixed assets should be recorded in this ledger as they occur. The ledger should be reconciled to the general ledger control account in a timely manner.
- b. Perform a comprehensive annual physical inventory of fixed assets, including land, buildings and improvements, and equipment. Any differences between the physical inventory, the fixed assets subsidiary ledger, and the general ledger accounts should be resolved.